

REGULATION 42
GROUP SELF-INSURANCE FUNDS
Effective 20 December 1992

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REGULATION 42

GROUP SELF-INSURANCE FUNDS

§1. This regulation is adopted and promulgated by the Commissioner of Insurance pursuant to authority granted by Louisiana Revised Statutes Title 23, Section 1193.

§2. Definitions. When used in this regulation, the following words or terms shall have the meaning as described in this section.

(1) Administrator--An individual, partnership or corporation engaged by a group self-insurance fund to carry out the policies of the trustees of the fund and to provide day-to-day management of the fund.

(2) Aggregate losses - the amount of all claims incurred, including reserves for loss development and losses incurred but not reported which exceeds the loss fund.

(3) Contingent Liability--The amount that a self-insurance fund may be obligated to pay in excess of a given fund year's normal premium collected or on hand.

(4) Fiscal Agent--An individual, partnership or corporation engaged by a self-insurance fund to carry out the fiscal policies of the fund, invest and disburse assets and oversee the financial matters of the fund. An administrator may be a fiscal agent.

(5) Gross Premium--Premium determined by multiplying the payroll (segregated into the proper workers' compensation job classifications) times the manual premium rates approved by the Commissioner.

(6) Incurred But Not Reported Reserves--A reserve established which estimates the incurred loss of claims whose existence is unknown by the fund or claims which have been reported but not recorded on the books of the fund.

(7) Loss Development--The change in incurred loss from one point in time to another.

(8) Loss Development Reserve--Any amount needed in a given fund year in addition to current loss reserves to fund future loss development.

(9) Loss Fund--The retention under the terms of an aggregate excess contract, or if no aggregate excess is purchased, the amount remaining from normal premium in each fund year after all necessary expenses are paid.

(10) Normal Premium--Standard premium less allowed discount.

(11) Qualified actuary - Either 1) an associate or fellow of the Casualty Actuarial Society or 2) a member of the American Academy of Actuaries who demonstrates knowledge of workers compensation insurance.

(12) Group self-insurance Fund or Fund - Employers who enter into agreements to pool their workers compensation liabilities in accordance with Louisiana Revised Statutes Title 23, Sections 1191-1193.

(13) Standard Premium--Gross premium plus or minus applicable experience debits or credits.

(14) Surplus-- Assets of a fund in excess of loss reserves, actual and contingent liabilities and loss development reserves in all fund years.

§3. Application to Create a Group Self-Insurance Fund

A. All applications to create a group self-insurance fund shall meet the requirements of R.S. 23:1191-1193, any other applicable laws of the state of Louisiana, and this regulation.

B. Applications shall be made in writing on a form acceptable to the Commissioner.

C. Applications shall be submitted to the Department of Insurance at least sixty (60) days prior to the effective date for establishment of a fund. Any application submitted with less than sixty (60) days remaining before the desired effective date or which does not contain answers to all questions or which is not notarized may be returned without review by the Commissioner.

D. All applications shall be accompanied by:

(1) A properly completed indemnity agreement in a form acceptable to the Commissioner, pursuant to Section 7 of this regulation.

(2) Securities or a Self-Insurers Surety Bond on a form and properly executed by a surety acceptable to the Commissioner, pursuant to Louisiana Revised Statutes Title 23, Section 1192(A)(2) and this regulation.

(3) Copies of acceptable excess insurance policies, pursuant to Louisiana Revised Statutes Title 23, Section 1192(A)(3) and this regulation.

(4) A fidelity bond covering the service company, pursuant to Louisiana revised Statutes Title 23, Section 1192(A)(7).

(5) A certification from a designated depository attesting to the amount of monies on hand.

(6) Copies of the fund by-laws or trust agreement.

(7) Individual application of each member of the group applying for membership in the fund on the effective date of the fund.

(8) Proof that the initial members of the fund have the combined net worth and membership requirements as specified in Louisiana Revised Statutes Title 23, Section 1191 and this regulation.

(9) Proof that the fund shall have an annual gross premium as specified in Louisiana Revised Statutes Title 23, Section 1192(A)(1).

(10) The current financial statement of any casualty insurance company writing excess coverage for the fund, which meets the requirements of Louisiana Revised Statutes Title 23, Section 1192(A)(6).

(11) The name of the attorney representing the fund and the name of the Certified Public Accountant who will be submitting the certified financial statement.

(12) A completed estimated breakdown of policy year expenses on a form acceptable to the Commissioner.

(13) The address in this state where the books and records of the group will be maintained at all times.

(14) Proof of payment to the group self-insurance fund by each member of not less than twenty-five percent (25%) of that member's first year estimated annual net premium.

(15) A pro forma financial statement, pursuant to Louisiana Revised Statutes Title 23, Section 1192(A)(8) and Section 5(A) hereof.

E. Upon receipt of the application and other required materials, the Commissioner will investigate the application and will request any additional information which is required in a letter to the applicant.

F. Failure to meet any of the criteria or provide needed information shall be grounds for denial of the application.

G. Within forty-five (45) days of receipt of all requested information, the Commissioner shall issue a decision approving or denying the application, or shall extend his time for review.

§4. Conditions for Retaining the Self-Insurance Privilege

A. The self-insurance privilege of a fund is granted continuously until revoked.

B. All funds shall be required to submit the following documents and reports:

(1) Annual financial statements certified by an independent Certified Public Accountant pursuant to Section 5(B) hereof.

(2) Estimated breakdown of policy year expenses pursuant to Section 5(D) hereof.

(3) Actuarial reports as may be required by the Commissioner.

(4) Changes in items required to be furnished under Section 3(D)(1),(2),(3),(4),(6),(10),(11), and (13), within 10 days of the effective date of such change.

C. All funds shall maintain a combined net worth of their members sufficient to pay all claims.

D. Each fund shall notify the Commissioner, within ten (10) days of receiving knowledge thereof, of any claim, whether such claim is in litigation or otherwise, against the fund which, if the claimant is successful, would create an obligation of the fund to pay in excess of 50% of the fund's specific self insured retention or \$125,000, whichever is less.

E. The Commissioner may prescribe the format and frequency of other reports which may include, but shall not be limited to, payroll audit reports, summary loss reports, and quarterly financial statements.

F. The Commissioner may require periodic proof that the fund is complying with the applicable laws, rules, regulations and directives of the Department of Insurance.

G. Whenever the Commissioner determines that a fund has knowingly submitted an application or other information containing false or misleading information, the Commissioner may revoke the Certificate of Authority of the fund.

§5 Financial and Actuarial Reports for Group Self-Insurance Funds

A. Each fund shall submit a current financial statement, certified by an independent Certified Public Accountant, of at least two members showing, at the inception of the fund, a combined net worth of a minimum of \$500,000, current financial statements of all other members, a combined ratio of current assets to current liabilities of more than 1 to 1, a combined working capital of an amount establishing financial strength and liquidity of the members to pay normal compensation claims promptly, and showing evidence of the financial ability of the group to meet its obligations. A certified audit or a financial statement properly certified by an officer, owner or partner for all members joining the fund after the inception date shall be submitted to the Commissioner until such time as a certified annual audit report is available for the fund as a whole. In no event shall the cumulative net worth or ratio of the current assets to current liabilities of all members be less than that required in this Subsection.

B. The report of financial condition shall be due annually within six (6) months of the close of the fiscal year of the fund, unless an extension is granted by the Commissioner, on a form acceptable to the Commissioner.

C. Actuarial reviews, if required, shall be made by a qualified actuary. Actuarial reports shall be due and filed at the same time as the fund's annual financial statement, except as otherwise provided by the Commissioner.

D. Each fund shall file an estimated breakdown of expenses on a form acceptable to the Commissioner, within 60 days after the beginning of each fiscal year.

§6 Excess Insurance Requirements for Group Self-Insurance Funds

A. All funds shall maintain specific excess insurance in the amount of at least \$2,000,000 per occurrence and an aggregate excess of at least \$2,000,000.

B. For the purposes of this Section, no loss fund shall be less than 70 percent of earned normal premium without the approval of the Commissioner.

C. The maximum retention allowed for a fund's specific excess policy shall be in accordance with the following schedule unless a waiver is granted pursuant to Subsections (D), (E), (F) and (G) of this Section:

(1) For funds with a loss fund less than \$50,000,000, the maximum retention shall be 3 percent of the fund's loss fund, or \$250,000, whichever is greater.

(2) For funds with a loss fund greater than or equal to \$50,000,000 and less than \$100,000,000, the maximum retention shall be 3.5 percent of the fund's loss fund.

(3) For funds with a loss fund greater than or equal to \$100,000,000, the maximum retention shall be 4 percent of the fund's loss fund.

(4) Regardless of any maximum contained in this Subsection, no fund shall secure a retention which in the Commissioner's opinion is not actuarially sound.

D. If a fund wishes to secure a specific excess policy with a retention greater than the maximum allowed by Subsection (C) of this Section, then the fund shall comply with the procedure described in Subsections (E), (F) and (G) of this Section.

E. Funds which have been in operation at least thirty (30) months may request permission to secure a retention higher than that authorized by Subsection (C) of this Subsection. A fund shall submit a feasibility study prepared by a qualified actuary which analyzes the impact on the fund of the higher retention.

F. The Commissioner shall deny the use of a higher retention if he finds (1) that the higher retention will have a significant adverse effect on the financial condition of the fund, or (2) that the fund is unable to establish reserves using monies from (a) premium earned during the year the loss was incurred, or (b) investment earnings from the year in which the loss was incurred, or (c) from future investment earnings on the specific loss reserve.

G. Each fund shall provide security for aggregate losses by selecting one of the following alternatives:

(1) Purchasing an acceptable aggregate excess policy.

(2) Upon approval of the Commissioner, post a cash security deposit in the amount of \$1,000,000 or 20 percent of annual standard premium, whichever is greater, or

(3) If the fund has been in operation at least 60 months, upon approval of the Commissioner, establish an actuarially sound reserve for aggregate losses.

H. Subject to the minimum stated in Subsection (A) of this Section, the fund shall secure an aggregate limit of at least 20 percent (20%) of the annual standard premium of the fund for the term of the policy. The retention of the aggregate policy shall be subject to the approval of the Commissioner

I. If the option in Subsection (G)(2) of this Section is selected, a fund, upon approval of the Commissioner, may self-insure part of its aggregate limit by posting as a cash security deposit for the amount which is self-insured.

J. If a fund receives permission to provide security for its aggregate losses by establishing an aggregate reserve, the fund shall comply with the following requirements:

(1) At least 60 days prior to the beginning of each policy year for which an aggregate reserve will be established, the fund shall submit a plan for that year. Approval of the plan by the Commissioner shall be required before an aggregate reserve may be established for the next policy year.

(2) Within six months after the end of each fund year, the fund shall submit an actuarial review, by a qualified actuary, of its aggregate reserve for each fund year whose aggregate losses are guaranteed by the reserve.

(3) Along with the actuarial review, the fund shall provide financial information which sets forth the financial position of the aggregate reserve.

(4) In actuarially determining the amount of ultimate loss, the fund and its actuary may take into account current or future recoveries from any aggregate or specific excess contract, if such contract complies with this regulation.

K. The Commissioner may:

(1) Reject an actuarial review or financial report which does not comply with the requirements of Subsection (L) of this Section. If this occurs, the Commissioner may, at the expense of the fund, conduct his own actuarial or financial review, or, upon request of the fund, allow the fund to submit another actuarial or financial report subject to the Commissioner's approval of the party preparing the report.

(2) For good cause, order a fund to cease using an aggregate reserve for securing its aggregate losses. Good cause shall include a finding that the aggregate reserve is actuarially unsound, that the fund is insolvent, that the fund will lack sufficient liquidity to run off its claims without reliance on future premium income, or that the fund has failed to comply with the provisions of this regulation.

(3) In the event that the fund's aggregate reserve, or reserves, is actuarially unsound, order the fund to take such corrective action as necessary to make the reserve actuarially sound.

L. If a fund receives approval of its plan to use an aggregate reserve to provide security for its aggregate losses, then:

(1) Payment of dividends from premium in a fund year shall not be requested or approved for that fund year as long as any claims reserves, reserves for loss development or reserves for losses incurred but not reported (IBNR) are unfunded by actual cash reserves.

(2) No dividends shall be requested or approved from investment earnings unless the aggregate reserves for all years are actuarially sound, taking into account future contributions, and aggregate excess insurance.

(3) Advance premium discounts and all expenses unnecessary for the fund to meet its obligations will be reduced or eliminated, if necessary, to provide funds to make an aggregate reserve actuarially sound.

(4) Amounts actuarially determined to be necessary for the reserves for loss development and IBNR shall be a part of the fund's security deposit requirement.

(5) No premium from a year prior to the year for which the aggregate reserve is established may be allocated to fund an aggregate reserve until 12 months after the close of the prior year.

§7 Indemnity Agreement

A. Each self-insurance fund member shall enter into an indemnity agreement jointly and severally binding the self-insurance fund and each member thereof to comply with the provisions of the applicable Louisiana Revised Statutes and rules, regulations and directives of the Department of Insurance.

B. The Indemnity Agreement requirement shall not be applicable to group self-insurance funds of public employers.

§8 Rates and Reporting of Rates

Every workers' compensation self-insurance fund shall adhere to a uniform classification system, uniform experience rating plan, and manual rules approved by the Commissioner. An experience modification shall be determined for each member of a self-insurance fund annually, or as otherwise provided, on the same basis as if the employer were insured under rules approved by the Louisiana Insurance Rating Commission for admitted carriers and such modification is to be used to determine the employer's standard premium as provided by such rules and the indemnity agreement. Should a member cease to participate in a self-insurance fund and purchase standard insurance coverage, self-insured experience may be used in the employer's future experience rating calculation.

§9 Authorized Investments for Group Self-Insurance Funds

Amounts not needed for current obligations may be invested by the board of trustees in deposits in federally insured banks or savings and loan associations or in direct obligations of the United States government or direct obligations of the State of Louisiana.

§10 Premium Audit

All self-insurance funds shall determine the normal premium due from each member in each policy year based on actual audited payroll. Audits shall consist of physical on-site audits or mail self-audits. The requirements set forth herein shall apply to the fund and its present or former members. Funds shall be responsible for compliance with this Section by contracted audit personnel or firms.

§11 Board of Trustees

A. Except upon approval of the Commissioner, the fund's administrator, service company, or any owner, officer, employee of, or any other person affiliated with, such administrator or service company shall not serve on the board of trustees of the fund.

B. All trustees shall be residents of this state or officers of corporations authorized to do business in this state.

C. The board of trustees of each group shall ensure that all claims are paid promptly and take all necessary precautions to safeguard the assets of the group, including all of the following:

(1) Maintain responsibility for all monies collected or disbursed from the group and segregate all monies into a claims fund account and an administrative fund account. At least 70% of the premium as determined by the Commissioner shall be designated for the sole purpose of paying claims, allocated claims expenses, and special fund contributions, including second injury and other loss related funds. This shall be called the claims fund account. The

remaining net premium shall be designated for the payment of taxes, general regulatory fees, assessments, and administrative costs. This shall be called the administrative fund account. The Commissioner may approve an administrative fund account of more than 30% and a claims fund account of less than 70% only if the group shows to the Commissioner's satisfaction that (a) more than 30% is needed for an effective safety and loss control program or (b) the group's aggregate excess insurance attaches at less than 70%.

(2) Maintain minutes of its meetings.

(3) Designate an administrator to carry out the policies established by the board of trustees and to provide day to day management of the group, and delineate in the written minutes of its meetings the areas of authority it delegates to the administrator.

(4) Retain an independent certified public accountant to prepare the statement of financial condition required by Subsections A and B of Section 5 hereof.

(5) The trustees shall cause to be adopted a set of by-laws or shall enter into a trust agreement which shall govern the operation of the fund.

D. The board of trustees shall not:

(1) Extend credit to individual members for payment of a premium, except pursuant to payment plans approved by the Commissioner.

(2) Borrow any monies from the group or in the name of the group, except in the ordinary course of business, without first obtaining prior approval from the Commissioner.

§12 Group Membership; Termination, Liability

A. An employer joining a group after the group has been issued a certificate of approval shall: (a) submit an application for membership to the board of trustees or its administrator and (b) enter into the indemnity agreement required by Subsection C(1) of Section 3 hereof. Membership shall take effect no earlier than each member's date of approval. The application for membership and its approval shall be maintained as permanent records of the board of trustees.

B. Individual members of a group shall be subject to cancellation by the group's cancellation policy. In addition, individual members may elect to terminate their participation in the group.

C. The group shall pay all workers' compensation benefits for which each member incurs liability during its period of membership. A member who elects to terminate its membership or is cancelled by a group remains liable jointly and in solido for claims of the group and its members which were incurred during the cancelled or terminated member's period of membership.

D. A group member is not relieved of its workers' compensation liabilities incurred during its period of membership except through payment by the group or the member of required workers' compensation benefits.

E. The insolvency or bankruptcy of a member does not relieve the group or any other member of liability for the payment of any worker's compensation benefits incurred during the insolvent or bankrupt member's period of membership.

§13 Service Companies

A. All service companies must file a request for approval by the Commissioner and have a letter or certificate of approval from the Commissioner prior to engaging in any service to a fund. All service companies performing services for group self-insurance funds on the effective date of this regulation shall file the request for approval and receive the letter or certificate of approval from the Commissioner not later than March 1, 1993. The Commissioner may request any information deemed necessary to establish the ability and financial strength of the service company to perform the required functions.

B. Except upon approval of the Commissioner: (1) No service company or its employees, officers or directors shall be an employee, officer, or director of, or have either a direct or indirect financial interest in, an administrator, and (2) No administrator or its employees, officers or directors shall be an employee, officer or director of, or have either a direct or indirect financial interest in, a service company.

C. The service contract shall state that, unless the Commissioner approves otherwise, the service company shall handle, to their conclusion, all claims and other obligations incurred during the contract period.

§14 Licensing of Agents.

Any person soliciting membership for a fund must be licensed by the Commissioner as a property and casualty agent; provided, however, that employees of a bona fide trade or professional association which has established a fund shall not be required to be so licensed if such solicitation is not the primary duty of such employees.

§15 Deficits and Insolvencies.

A. Should the Commissioner find a fund in danger of becoming insolvent, the fund shall make up any deficiency owed or shall submit a plan for elimination of the deficit to the Commissioner in order that he may determine whether or not an assessment upon its members for the amount needed to make up the deficiency is required.

B. In the event of a deficiency in any fund year, such deficiency shall be made up immediately, either from (a) surplus from a fund year other than the current fund year, (b) administrative funds, (c) assessment of the membership, if ordered by the fund, or (d) such alternative method as the Commissioner may approve or direct. The Commissioner shall be notified prior to any transfer of surplus funds from one fund year to another.

C. If the fund fails to assess its members, otherwise make up such deficit, or submit a plan, as specified in paragraph A above, within sixty (60) days of notice by the Commissioner, the Commissioner shall order assessment of the members of the fund.

D. If the fund fails to make the required assessment of its members within thirty (30) days after the Commissioner orders it to do so, or if the deficiency is not fully made up within ninety (90) days after the date that such assessment is made, or within such longer period of time as may be specified by the Commissioner, the fund shall be deemed to be insolvent.

E. For purposes of these provisions, a fund is insolvent if the fund is unable to pay its outstanding lawful obligations as they mature in the regular course of business.

F. In the event of liquidation of a fund, the Commissioner shall levy an assessment upon its members for such amounts as the Commissioner determines to be necessary to discharge all liabilities of the fund, including the reasonable costs of liquidation.

§16 Review of Rate Determination

Funds shall provide reasonable means whereby any member aggrieved by the application of the fund's rating system may, in writing, request a review of the manner in which such rating system has been applied in connection with the coverage afforded. The fund shall have thirty (30) days from receipt to grant or deny the request, in writing. If the fund rejects such request or fails to grant or reject such request within such thirty (30) day period, the member may, within thirty (30) days following the expiration of such thirty (30) day period, appeal to the Commissioner, who, after a hearing held upon not less than ten days' written notice to the member and to the fund, may affirm or reverse such action.

§17 Cease and Desist Orders

A. After notice and opportunity for a hearing, the Commissioner may issue an order requiring a person or group to cease and desist from engaging in an act or practice found to be in violation of any provision of this regulation.

B. Upon finding, after notice and opportunity for a hearing, that any person or group has violated any cease and desist order, the Commissioner may revoke the group's certificate of authority.

§18 Revocation of Certificate of Authority

After notice and opportunity for a hearing, the Commissioner may revoke a group's certificate of authority if:

- (1) The group is found to be insolvent,
- (2) the group fails to pay any premium tax, regulatory fee or assessment, or special fund contribution imposed upon it,
- (3) the group fails to comply with any of the provisions of this regulation, or with any lawful order of the Commissioner within the time prescribed,
- (4) the certificate of authority issued to the group was obtained by fraud,
- (5) there was a material misrepresentation in the application for the certificate of authority, or

(6) the group or its administrator has misappropriated, converted, illegally withheld, or refused to pay over upon proper demand any monies held in a fiduciary capacity that belong to a member, an employee of a member, or another person.

§19 Examinations

The Commissioner may examine the affairs, transactions, accounts, records, assets and liabilities of a fund as often as the Commissioner deems advisable. The expenses of such examinations shall be paid by the fund being examined.